

Message Text

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PAGE 01 EC BRU 05302 01 OF 02 162010Z

73

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-03 INR-11 NSAE-00 RSC-01 CIEP-02

SP-03 STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 L-03

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TO SECSTATE WASHDC IMMEDIATE 7224

INFO AMEMBASSY BONN

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PASS TREASURY, FRB AND CEA

E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EC COUNCIL (FINANCE) MEETING JULY 15

REFS: EC BRUSSELS 5188

EC BRUSSELS 5128

1. SUMMARY: IN A RESTRICTED MEETING ABLY CHAIRED BY FRANCE

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PAGE 02 EC BRU 05302 01 OF 02 162010Z

(FOURCADE) AND CHARACTERIZED BY MOST OF OUR CONTACTS AS COOPERATIVE

AND FRANK, THE EC COUNCIL (FINANCE) REACHED A VAGUE CONSENSUS THAT MEMBER STATES SUFFERING FROM INFLATION AND ESTERNAL DEFICITS SHOULD IN GENERAL ADOPT RESTRICTIVE POLICIES. CONVERSELY, COUNTRIES IN SURPLUS SHOULD PURSUE BASICALLY EXPANSIONARY POLICIES. NO SPECIFIC COMMITMENTS OR DECISIONS WERE REACHED, HOWEVER, AND THE LANGUAGE OF THE FINAL COMMUNIQUE OFFERED ESCAPE CLAUSES TO ALL CONCERNED. OWING TO GERMAN OPPOSITION, THE COUNCIL STOPPED SHORT OF ACCEPTING IN PRINCIPLE A COMMUNITY LOAN BUT INSTRUCTED THE MONETARY AND CENTRAL BANK GOVERNORS' COMMITTEES TO DRAW UP A SPECIFIC PLAN IN THE EVENT THE COUNCIL SHOULD LATER DECIDE IN FAVOR OF THE LOAN. THE MINISTERS REAFFIRMED THE VALIDITY OF THE WASHINGTON GROUP OF TEN DECISION THAT GOLD COULD BE USED AS COLLATERAL BUT REJECTED A FRENCH PROPOSAL TO REVALUE MEMBER STATE RESERVES. FOURCADE TOLD THE COUNCIL, AND REPEATED AFTERWARDS TO THE PRESS, THAT THE FLOAT OF THE FRENCH FRANC WOULD CONTINUE. FINALLY THE MINISTERS DECIDED TO PURSUE THEIR DIALOGUE IN RESTRICTED MONTHLY SESSIONS BEGINNING WITH THE NEXT MEETING SCHEDULED FOR SEPTEMBER 9. THIS LAST DEVELOPMENT WAS VIEWED BY MANY OF OUR CONTACTS AS THE MOST FAVORABLE OF THE MEETING, WHICH OTHERWISE PRODUCED NO MAJOR DECISIONS. END SUMMARY.

2. MOST OF THE MEETING, NEARLY ALL OF WHICH TOOK PLACE IN RESTRICTED SESSION (FOUR DELEGATES PER COUNTRY), WAS DEVOTED TO DISCUSSION OF THE COORDINATION OF ECONOMIC POLICIES AND ANTI-INFLATION MEASURES IN THE MEMBER STATES. THE DISCUSSION CENTERED AROUND AN INTERNAL COMMISSION PAPER ON STABILIZATION POLICIES (REF B). THIS PAPER, WHICH IS BEING POUCHED TO RPE, TREASURY AND THE FRB, CALLS ON DEFICIT COUNTRIES TO TRY TO RAPIDLY IMPROVE THEIR EXTERNAL POSITIONS AND CHECK INCREASES IN PRICES AND COSTS THROUGH CURBING DOMESTIC DEMAND. SURPLUS COUNTRIES ARE ASKED TO STIMULATE RECOVERY IN DOMESTIC DEMAND AND TO AIM FOR A GROWTH RATE OF REAL GNP OF 4 PERCENT BY THE END OF 1974. THEY SHOULD ALSO ACCEPT DETERIORATION IN THEIR BALANCE OF PAYMENTS. IN ADDITION TO MEASURES TO REGULATE OVER-ALL DEMAND, THE COMMISSION SUGGESTS PARALLEL ACTION ON INCOMES POLICY (TO MODERATE WAGE CLAIMS), PERSONAL SAVINGS (TO RAISE THE RETURN ON LONG-TERM SAVINGS) AND AGRICULTURAL PRICES (ANY DECISION THEREON TAKING INTO ACCOUNT THE REQUIREMENTS OF ANTI-INFLATION POLICY.)

3. THE COMMISSION FURTHER RECOMMENDS THAT THE MEMBER STATES (A) LIMITED OFFICIAL USE

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PAGE 03 EC BRU 05302 01 OF 02 162010Z

REFRAIN FROM RAISING OBSTACLES TO TRADE, (B) PURSUE CONSISTENT INTEREST RATE POLICIES--WHICH SHOULD BE HIGHER IN DEFICIT THAN IN SURPLUS COUNTRIES, (C) CHANNEL BOTH DIRECT AND PORTFOLIO INVESTMENT FROM SURPLUS TO DEFICIT COUNTRIES AND (D) RESTRICT GROWTH IN ENERGY CONSUMPTION THROUGH ENERGY SAVING MEASURES AND PRICING POLICIES. THE PAPER LISTS A FEW SPECIFIC RECOMMENDATIONS FOR EACH MEMBER STATE.

4. IN GENERAL THE MEMBER STATES RAISED NO OBJECTIONS TO THE COMMISSION'S RECOMMENDATIONS ON POLICY GUIDELINES. THESE EITHER CORRESPONDED TO NATIONAL MEASURES ALREADY BEING TAKEN OR WERE SUFFICIENTLY VAGUE SO AS NOT TO AROUSE UNDUE DISSENT. THE FINAL COMMUNIQUE NOTED THAT THE COUNCIL HELD A VERY FRANK AND PROBING DISCUSSION OF THE ECONOMIC SITUATION IN EACH MEMBER STATE AND ANTI-INFLATION MEASURES ALREADY TAKEN OR ENVISAGED. THE COMMUNIQUE SAID THAT RESTORATION OF EXTERNAL EQUILIBRIUM IMPLIED (A) AVOIDANCE OF EXCESSIVE EXPANSION OF INTERNAL DEMAND BY DEFICIT COUNTRIES WITH HIGH RATES OF INFLATION AND (B) ACTION BY SURPLUS COUNTRIES TO STIMULATE INTERNAL DEMAND AND REDUCE EXTERNAL SURPLUSES--WITHOUT CRATING NEW PRESSURES ON PRICES.

5. THE ORIGINAL FORMULATION WAS MORE BINDING THAN THE ABOVE, BUT THE UK INSISTED ON THE WORD QUOTE EXCESSIVE END QUOTE IN CONNECTION WITH AVOIDANCE OF EXPANSION OF DEMAND BY DEFICIT COUNTRIES--APPARENTLY IN ORDER TO AVOID ANY FIRM COMMITMENT TO AN ANTI-INFLATION POLICY. HEALY REPORTEDLY WARNED THE COUNCIL AGAINST GENERAL DEFLATION--NOTING THAT IN THE UK REAL EARNINGS DROPPED TWO PERCENT IN 1973, THE ECONOMY WAS OPERATING BELOW CAPACITY, AND THAT THE UK FACED A POLITICALLY UNACCEPTABLE LEVEL OF UNEMPLOYMENT. HEALY URGED THAT THE MEMBER STATES BORROW TO FINANCE THEIR OIL DEFICITS BUT THAT NON-OIL DEFICITS AND SURPLUSES BE ELINIATED. HE ADDED THAT BORROWING SHOULD CONTINUE UNTIL OIL PRODUCING STATES ACHIEVED GREATER CAPACITY TO IMPORT AND PREDICTED THAT THE UNKNOWN-OIL DEFICIT WOULD DISAPPEAR IN 1975.

6. THE MINISTERS DISCUSSED THE COMMISSION'S PROPOSAL FOR A COMMUNITY LOAN ON THE BASIS OF A MONETARY COMMITTEE REPORT (REF. A). THIS REPORT, COPIES OF WHICH ARE BEING POUCHED TO RPE, TREASURY, AND THE FRB, STATES THAT WHILE THE FINANCIAL NEEDS OF SOME MEMBER STATES JUSTIFY SUCH AN INITIATIVE, ACCEPTANCE OF IT IN PRINCIPLE IS AN ACT OF POLITICAL JUDGEMENT--PARTICULARLY IN VIEW LIMITED OFFICIAL USE

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PAGE 04 EC BRU 05302 01 OF 02 162010Z

OF IMPORTANT QUESTIONS SUCH AS HOW AND BY WHOM THE LOAN WOULD BE GUARANTEED. AT THE INSISTENCE OF THE GERMANS, ACCORDING TO OUR CONTACTS, THE REPORT CONCLUDES THAT IT IS INOPPORTUNE TO CONSIDER PLACING SUCH A LOAN IN THE NEAR FUTURE.

7. THE GERMANS REPORTEDLY TOLD THE COUNCIL THEY COULD NOT CCEPT SUCH A LOAN IN PRINCIPLE BEFORE XAMINING THE TECHNICAL DETAILS. WE UNDERSTAND MOST OF THE OTHR MEMBER STATES FOUND THE IDEA ACCEPTABLE IN PRINCIPLE, THROUGH HEALY INDICATED THAT THE UK HAD NO ACUTE NEED FOR SUCH A LOAN AND THAT THE RESOURCES OF THE IMF AND FOREIGN EXCHANGE MARKET SHOULD BE UTILIZED FIRST. THE FINAL COMMUNIQUE SAID THAT THE COUNCIL QUOTE CONSIDERED END QUOTE THE PROPOSAL FOR AN EVENTUAL COMMUNITY LOAN AND DIRECTED THE APPROPRIATE COMMITTEES TO DRAW UP A SPECIFIC PLAN IN CASE OF A FUTURE DECISION TO PROCEED WITH THE LOAN.

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PAGE 01 EC BRU 05302 02 OF 02 161955Z

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8 THE MINISTERS HELD A BRIEF DISCUSSION ON GOLD. THEY REAFFIRMED THE VALIDITY OF THE INFORMAL G-10 UNDERSTANDING IN WASHINGTON THAT GOLD COULD BE USED AS COLLATERAL FOR LOANS. THIS REAFFIRMATION WAS APPARENTLY STIMULATED BY REPORTS THAT THE IMF LEGAL STAFF REFUSED TO ACQUIESCE IN THE USE OF GOLD AS COLLATERAL. THE MEMBER STATES WILL REPORTEDLY INSTRUCT THEIR IMF EXECUTIVE DIRECTORS IN WASHINGTON OF THE COUNCIL'S VIEW.

9. A FRENCH PROPOSAL TO REVALUE MEMBER STATE GOLD RESERVES WAS REJECTED BY THE FRG, THE UK AND THE NETHERLANDS. HEALY ARGUED THAT

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PAGE 02 EC BRU 05302 02 OF 02 161955Z

ANY CONCERTED COMMUNITY MOVE ON GOLD AMOUNTED TO ESTABLISHMENT OF A NEW OFFICIAL PRICE. AT THE SAME TIME, IT WAS UNDERSTOOD THAT ALTHOUGH THERE WOULD BE NO COLLECTIVE ACTION ON GOLD, ANY MEMBER STATE

WISHING TO REVALUE ITS RESERVES COULD DO SO WITH PRIOR CONSULTATION. OUR SOURCES TELL US, HOWEVER, THAT IN VIEW OF THE FIRM OPPOSITION OF SOME MEMBER STATES, NO INDIVIDUAL MEMBER IS LIKELY TO ACT UNILATERALLY TO REVAUE ITS RESERVES. THE QUESTION WILL NONETHESS REMAIN ON THE AGENDA OF THE CENTRAL BANK GOVERNORS.

10. IN HIS BRIEFING OF THE PRESS FOLLOWING THE MEETING, FOURCADE SAID THAT HE HAD TOLD HIS COLLEAGUES THE FRENCH FRANCE WOULD CONTINUE TO FLOAT SINCE THE CONDITIONS THAT FRANCE HAD PREVIOUSLY ATTACHED TO AN END OF THE FLOAT HAD NOT BEEN FULFILLED. HE LISTED THESE AS (A) BETTER COORDINATION OF MEMBER STATE ECONOMIC POLICIES, (B) STRENGTHENING OF THE COMMUNITY'S SHORT-TERM MONETARY SUPPORT MECHANISM, (C) REACTIVATION OF THE COMMUNITY'S GOLD RESERVES, (D) MOBILIZATION OF CAPITAL FROM COUNTRIES BEIEFITING FROM HIGHER OIL PRICES AND (E) GREATER HARMONIZATION OF MEMBER STATE EXCHANGE RATE POLICIES. ACCORDING TO OUR CONTACTS, THE COUNCIL ASKED THE MONETARY AND CENTRAL BANK GOVERNOR COMMITTEES TO STUDY THE POSSIBILITY OF RESTORATION OF THE FRENCH FRANCE TO THE EC SNAKE--THE QUESTION TO BE RAISED AGAIN IN SEPTEMBER

11. FOURCADE ALSO REPORTEDLY SUGGESTED TO THE COUNCIL THAT THE VARIOUS EC COMMITTEES STUDY A NEW EC CURRENCY ARRANGEMENT CHARACTERIZED BY WIDER MARGINS, GREATER SECRECY, GREATER FLEXIBILITY, AND A NEW APPORTIONMENT OF DEBTS INCURRED IN INTRA-COMMUNITY SETTLEMENTS. COMMISSION PRESIDENT ORTILI TOLD THE COUNCIL THE COMMISSION WAS WORKING ON A NEW SYSTEM FOR LINKING CURRENCIES STILL IN THE SNAKE WITH THOSE FREELY FLOATING BUT DID NOT INTEND TO SUBMIT AN CONCRETE PROPOSALS AT THIS TIME. IN THIS CONNECTION, IT IS WORTH NOTING THAT ON JULY 12, PRIOR TO THE COUNCIL MEETING, COMMISSION VICE PRESIDENT HAFERKAMP TOLD THE PERMREPS THE COMMISSION WOLD HENCEFORTH ABSTAIN FROM FORMAL PROPOSALS AND LONG MEMORANDA BUT WOULD INSTEAD SUBMIT PERIODIC INFORMAL DISCUSSION PAPERS.

11. EVALUATION OF THE RESULTS OF THE COUNCIL BY OUR PERMREP AND COMMISSION CONTACTS HAVE BEEN MIXED. ALL AGREE THAT THE MEETING WAS VERY ABLY AND SMOOTHLY CONDUCTED BY FOURCADE. THE LIMITED OFFICIAL USE

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PAGE 03 EC BRU 05302 02 OF 02 161955Z

ALSO NOTE THAT THE FRENCH SEEMED IBUED WITH GREATER COMMUNITY

SPIRIT THAN THEY HAVE DISPLAYED IN RECENT TIMES--
WHETHER OR NOT THERE HAS BEEN ANY FUNDEMANATAL CHANGE IN THEIR
VIEWS ON EUROPEAN ECONOMIC INTEGRATION. THERE IS ALSO AGREEMENT
THAT THE ATMOSPHERE AT THE MEETING--AS WELL AS AT THE HIGHLY
RESTRICTED LUNCH WHICH PRECEDED IT--WAS FRANK, OPEN, AND
COOPERATIVE. THOSE WHO HOLD THIS POINT OF VIEW BELIEVE THAT THE
MOST POSITIVE RESULT OF THE COUNCIL WAS THE DECISION TO INTENSIFY
THE DIALOGUE THROUGH RESTRICTED MONTHLY MEETINGS BEGINNING
SEPTEMBER 9 FOLLOWING THE AUGUST HOLIDAYS. THESE SOURCES REASON
THAT ALTHOUGH THE MINISTERS REFRAINED FROM CONCRETE DECISIONS,
NONE WERE EXPECTED AND THAT IT IS MORE IMPORTANT TO ESTABLISH A
CLIMATE OF OPINION FAVORABLE TO INTENSIFIED CONSULTATION
AND CONCERTED ACTION IN THE FUTURE. A DISSENTING AND PROBABLY
MORE REALISTIC VIEW EXPRESSED BY SOME OF OUR SOURCES IS THAT
OPEN AND FRANK DISCUSSIONS ARE NO SUBSTITUTE FOR CONCRETE MEASURES,
OF WHICH THE COUNCIL PRODUCED NONE. THEY SAY THE UK AND IRELAND
EFFECTIVELY PREVENTED ANY CONCERTED ACTION ON INFLATION AND THAT
THE GERMANS DID NOT YIELD IN THEIR OPPOSITION TO A
COMMUNITY LOAN.GREENWALD

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